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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

BEC1624 –MACROECONOMICS

(All sections / Groups)

13 MARCH 2021

9.00 am to 12.00pm

(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 5 pages excluding the cover page with 4 questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Refer to the information on the Aggregate Income and Aggregate Consumption for Malaysia provided in Table 1 below to answer the questions that follow.

Table 1

Aggregate Income (RM billion)	Aggregate Consumption (RM billion)
0	80
50	125
100	170
150	215
200	260

i) What is the autonomous consumption for Malaysia? (2 marks)

ii) What is the Marginal Propensity to Consume (MPC) for Malaysia? (4 marks)

iii) Based on your answer in (ii), what is the Marginal Propensity to Save (MPS) for Malaysia? (3 marks)

iv) What is the Aggregate Consumption function for Malaysia? (2 marks)

v) If national income (Y) is RM500 billion, calculate what is the Aggregate Consumption and the National Saving? (8 marks)

(b) Why is productivity related to the standard of living? In your answer be sure to explain what productivity and standard of living mean. Make a list of things that determine labor productivity. (6 marks)

(Total: 25 marks)

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QUESTION 2

(a) China watches big cash transactions to stem capital flight

BEIJING — China will start tracking large-sum cash transactions to help stem capital outflows as the trade war with U.S. continues to erode its dollar holdings.

Source: Nikkei Asia, June 27, 2020. Retrieved from
<https://asia.nikkei.com/Business/Markets/Currencies/China-watches-big-cash-transactions-to-stem-capital-flight>

Describe the impact of capital flight on China open economy. Include a three-panel diagram, the market for loanable funds, net capital outflow and the market for foreign currency exchange to demonstrate the effects.

(13 marks)

(b) As of November 11, 2020, Washington, California, and Massachusetts had the highest state minimum wage of \$13.50, \$13, and \$12.75 per hour, respectively. Many states will be bumping their minimum wage rates in 2021. In the meantime, a number of companies have cut to the chase and gratified their workers by hiking their own entry-level wages. Here are eight companies that have raised the minimum wage for their employees such as McDonald's, Starbucks, Bank of America, Wells Fargo, Aetna, Walmart, Ikea, and Costco. Other prominent companies felt compelled to raise their minimum wages, too. These include Target, T.J. Maxx, Amazon.com, and Gap. All of these companies reported improved customer service, happier workers, savings, and more professional candidates seeking to work for them.

Source: Investopedia, November 12, 2020. Retrieved from
<https://www.investopedia.com/articles/markets-economy/081416/top-8-companies-raising-minimum-wage-mcd-sbux.asp>

Explain **FOUR** ways how raising wages by these firms lead to larger profits for the organization.

(12 marks)

(Total: 25 marks)

Continued...

QUESTION 3

Malaysia on the verge of recession, economy could shrink -2%

A recession seems imminent with Malaysia's GDP may shrink to a low of -2% in 2020 due to the economic impact of the Covid-19 pandemic, Bank Negara Malaysia (BNM) warned.

It said the global economy is projected to register a negative growth in 2020 due to the significant economic repercussions arising from the virus, while Malaysia's Movement Control Order (MCO) will dampen domestic economic activity.

"We project Malaysia's GDP for 2020 to be between 0.5% and -2%. In the first half of this year (1H20), spill overs from the global slowdown and our pandemic containment measures will result in large output losses," BNM governor Datuk Nor Shamsiah Mohd Yunus (picture) said in a virtual press conference last Friday.

Malaysia will also be affected by volatility in oil prices and continued commodity supply disruptions, as the drought last year will affect oil palm yields and maintenance works will hamper production in a number of oil and gas facilities.

We expect the unemployment rate to increase to 4%. Our unemployment rate was 3.7% during the global financial crisis and 3.2% during the Asian financial crisis in 1998," Marzunisham said.

Source: The Malaysian Reserve, Jan 1, 2021. Retrieved from:

<https://themalaysianreserve.com/2020/04/06/malaysia-on-the-verge-of-recession-economy-could-shrink-2/>

(a) Malaysia's GDP growth "may shrink to a low of -2%" in 2020. Indicate the possible factors or downside risks (as stated in the article) contributing to the negative growth or output below potential.

(4 marks)

(b) Malaysian economy faces risks of not sustaining full-employment output level in 2020. Draw an aggregate demand and aggregate supply diagram to illustrate the current situation in Malaysia. The diagram must include the aggregate demand curve, the short-run aggregate supply curve, and the long-run aggregate supply curve.

(7 marks)

(c) Describe an open-market operation carried out by Bank Negara Malaysia that would restore Malaysian economy to its natural rate.

(6 marks)

Continued...

(d) Briefly explain as to how the prescribed open-market operation has an effect on Malaysia's lower output due to lower consumption. Demonstrate your explanation further using appropriate diagrams to show the effect of the open-market operation on quantities of output and the price level. (8 marks)

(Total: 25 marks)

QUESTION 4

(a)

<u>ASSETS</u>	<u>LIABILITIES</u>
Reserves \$15,000	Checkable deposits \$20,000
Loans \$4,000	
Bonds \$1,000	

i) If the required reserve ratio is 10%, what is the maximum amount of new loans that this bank can create? Explain. (3 marks)

ii) If a depositor withdraws \$2,000, now what is the maximum amount of new loans that this bank can create? Explain. (3 marks)

iii) Suppose that the Fed sells \$1,000 of T-bonds to the Local State Bank. Show what happens to Local State Bank's balance sheet. What happened to the monetary base? (3 marks)

(b) How the relation between the real exchange rate and net exports explains the downward slope of the demand for foreign-currency exchange curve with an example. (6 marks)

(c) Assuming that the Euro-U.S. dollar exchange rate is 0.9. If a German buys an American automobile for \$30,000, then what would the automobile cost in Euros? What would the automobile cost if the dollar depreciated by 20 percent? (3 marks)

Continued...

(d) Some countries have high inflation rates for a long time and other countries have had low inflation rates for a long time. Yet in some of the high inflation countries, the average unemployment rate has been about the same or sometimes higher than in the low inflation countries. Examine how these observations can be consistent with the Phillips curve.

(7 marks)

(Total: 25 marks)

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